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FISCAL IMPACT STATEMENT

LS 6600

BILL NUMBER: HB 1002

NOTE PREPARED: Dec 3, 2003

BILL AMENDED:

SUBJECT: Standard Homestead Deduction.

FIRST AUTHOR: Rep. Bauer

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: State & Local

| STATE IMPACT | FY 2004 | FY 2005 | FY 2006 |
|-------------------------|-------------|--------------|-------------|
| State Revenues | (147,000) | (225,000) | (79,000) |
| State Expenditures | (5,600,000) | (14,200,000) | (6,100,000) |
| Net Increase (Decrease) | 5,453,000 | 13,975,000 | 6,021,000 |

Summary of Legislation: This bill increases the maximum homestead standard deduction amount for two years.

Effective Date: Upon passage.

Explanation of State Expenditures: The increased deduction in this proposal would cause a reduction in homesteaders' property tax bills which would result in a savings of homestead credit expenditures. **The savings are estimated at \$5.6 M in FY 2004, \$14.2 M in FY 2005, and \$6.1 M in FY 2006.**

Homestead Credits are paid from the Property Tax Replacement Fund (PTRF), which is annually supplemented by the state General Fund. Any savings of Homestead Credit expenditures would ultimately benefit the state General Fund.

Explanation of State Revenues: The AV reduction resulting from the change to the standard homestead deduction would cause a reduction in revenue for the State Fair and State Forestry Funds. **The reduction**

is estimated at about \$147,000 in FY 2004, \$225,000 in FY 2005, and \$79,000 in all other years.

Explanation of Local Expenditures: There are 10 counties that currently provide a locally funded homestead credit. These counties include Allen, Madison, Marion, Miami, Monroe, Perry, St. Joseph, Spencer, Tippecanoe, and Vanderburgh. The additional amount of standard deductions in this bill will reduce homesteaders' property tax bills which would result in a small savings of locally provided homestead credit expenditures.

Local homestead credit is paid for with County Option Income Tax (COIT) proceeds. The amount of COIT revenue available for distribution to local civil taxing units is reduced by the amount spent for local homestead credits. Any local homestead credit savings would, therefore, increase distributions to the civil taxing units in these counties.

Explanation of Local Revenues: Under current law, each homestead may receive a deduction from assessed value in the amount of \$35,000 or ½ of the gross assessed value (AV), whichever is less. This proposal would raise the \$35,000 to \$44,000 in CY 2004 and \$39,500 in CY 2005. The deduction amount would return to \$35,000 for taxes paid in 2006. The deduction would still be limited to ½ of AV in all years.

Based on parcel data received from a small number of counties, the current \$35,000 deduction is expected to total about \$49.9 B in AV, statewide. This proposal would increase the deductions by an estimated \$8.9 B in CY 2004 and \$4.8 B in CY 2005. **The net tax shift from these additional deductions is estimated at about \$173 M in CY 2004 and \$95 M in CY 2005.** These amounts would be shifted from homesteaders to all property owners in the form of a higher tax rate. A portion of the shift, as much as 30%, would fall back onto homesteaders as they too would pay the higher tax rate. Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund.

State Agencies Affected:

Local Agencies Affected: County auditors.

Information Sources: County property tax parcel record data; Local Government Database.

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